

STATE OF NEW JERSEY

Board of Public Utilities

Two Gateway Center

Newark, NJ 07102

I/M/O The Provision Of Basic Generation)
Service Pursuant To The Electric Discount)
And Energy Competition Act,)
N.J.S.A. 48:3-49 et seq. – Post-Transition)
Procedures)

ENERGY

ORDER

Docket No. EX01110754

(SERVICE LIST ATTACHED)

BY THE BOARD:

Pursuant to the Electric Discount and Energy Competition Act (“EDECA”), N.J.S.A. 48:3-49 et seq., simultaneous with the August 1, 1999 starting date for the implementation of retail choice, and for at least three years subsequent and thereafter until the Board specifically finds it to be no longer necessary and in the public interest, each electric public utility shall provide basic generation service (“BGS”). N.J.S.A. 48:3-57(a). In addition, pursuant to N.J.S.A. 48:3-57(c), the Board is required, no later than three years after the August 1, 1999 starting date of retail competition, to issue a decision as to whether to make available on a competitive basis the opportunity to provide BGS to any electric power supplier, any electric public utility, or both.

“BGS” is defined in EDECA as electric generation service that is provided, pursuant to N.J.S.A. 48:3-57, to any customer that has not chosen an alternative electric power supplier, whether or not the customer has received offers as to competitive supply options, including, but not limited to, any customer that cannot obtain such service from an electric power supplier for any reason, including non-payment for services. N.J.S.A. 48:3-51. EDECA also provides that BGS is not a competitive service and is to be fully regulated by the Board. N.J.S.A. 48:3-51.

BGS has been provided by the regulated electric public utilities in New Jersey for over ninety years. By Order dated December 11, 2001, in I/M/O The Provision of Basic Generation Service Pursuant to the Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49 et seq., Docket Nos. EX01050303, EO01100654, EO01100655, EO01100656 and EO01100657, the Board approved a process for the electric public utilities to obtain BGS supplies for Year 4 of the Transition Period, August 1, 2002 through July 31, 2003, through a statewide auction. In that Order, the Board recognized that the issue as to whether to make the opportunity to provide BGS available on a competitive basis, per EDECA, is a complex question with many significant implications, particularly with respect to the pricing of BGS and the impact on retail choice. There are numerous issues that need to be examined regarding the possible provision of BGS on a competitive

basis. Among the issues that need to be carefully considered by the Board before it makes its determination are: what percentage, if any, of BGS load should be made available on a competitive basis; what process should be used to make BGS available on a competitive basis; who should be the supplier if a BGS supplier defaults; what customer services should be included in BGS on a competitive basis; how will reliability be maintained; how will customers be switched to different BGS suppliers; does competitive BGS pricing have to be uniform for all customers; what should be the role of the distribution companies, including whether they should have any remaining supply responsibilities; should there be a specific licensing requirement for BGS suppliers; and, should utility affiliates be permitted to supply BGS in a competitive environment.

In addition, as the Board investigates the future of BGS, the Board also needs to establish a mechanism for market-based pricing of post-Transition Period BGS (after July 31, 2003), which is consistent with EDECA, which states that:

Power procured for basic generation service by an electric power supplier shall be purchased at prices consistent with market conditions. The charges assessed to customers for basic generation service shall be regulated by the board and shall be based on the reasonable and prudent cost to the supplier of providing such service, including the cost of power purchased at prices consistent with market conditions, by the supplier in the competitive wholesale marketplace and related ancillary and administrative costs, as determined by the board or shall be based upon a competitive bid. [N.J.S.A. 48:3-57(d).]

EDECA contains a similar provision for BGS provided by an electric public utility. N.J.S.A. 48:3-57(a). Currently each of the electric distribution companies, per their rate unbundling, stranded costs and restructuring Orders¹, are providing BGS to customers at pre-approved rates, i.e., the “shopping credits.” As of July 31, 2003, the current Board approved pricing for BGS will expire. Consistent with N.J.S.A. 48:3-57, it is appropriate for the Board to investigate mechanisms to make BGS pricing reflective of market conditions in the post-Transition period.

In order to allow for the opportunity for interested stakeholders to provide input as to whether and how to make available on a competitive basis the opportunity to provide BGS beginning in August 2003, the Board has prepared a list of relevant questions, which are attached to this Order as Attachment A. Interested parties will have until February 8, 2002 to respond to the Board's questions. Based on the results of the comments received, the Board DIRECTS Staff to meet with any interested parties in a working group-like setting to discuss the major issues, explore possible areas of common ground, determine where differences exist and identify potential solutions. The Board's Director of the Energy Division and Chief Economist will participate and co-chair the discussion on appropriate

¹ In The Matter of Atlantic City Electric Company's Rate Unbundling, Stranded Costs and Restructuring Filings, Docket Nos. EO9707455, EO9707456, and EO9707457, Final Order dated March 30, 2001; In the Matter of Jersey Central Power & Light Company d/b/a GPU Energy – Rate Unbundling, Stranded Cost and Restructuring Filings, Docket Nos. EO97070458, EO97070459, and EO97070460, Final Order dated March 7, 2001; In the Matter of Public Service Electric and Gas Company's Rate Unbundling, Stranded Costs and Restructuring Filings, Docket Nos. EO97070461, EO97070462, and EO97070463, Final Order dated August 24, 1999; In the Matter of Rockland Electric Rate Unbundling, Stranded Costs and Restructuring Filings, Docket Nos. EO97070464, EO97070465, and EO97070466, Summary Order dated July 28, 1999.

BGS pricing options. Both processes, the written replies to the Board's questions and the results of the collaborative, working group process, are intended to provide the Board with information to make a final decision on whether to make the opportunity to provide BGS available on a competitive basis by August 2002. This process also will provide valuable information and guidance in order for the Board to determine how to proceed with post-Transition Period issues relating to BGS, including pricing. After reviewing the written comments and receiving an update from Staff as to the status of the working group discussions, the Board will determine what future procedural steps, if any, are necessary and appropriate in order to enable the Board to issue its decision.

DATED: January 10, 2002

BOARD OF PUBLIC UTILITIES
BY:

(SIGNED)
CONNIE O. HUGHES
PRESIDENT

(SIGNED)
FREDERICK F. BUTLER
COMMISSIONER

(SIGNED)
CAROL J. MURPHY
COMMISSIONER

ATTEST: (SIGNED)

HENRY M. OGDEN
ACTING BOARD SECRETARY

ATTACHMENT A

I/M/O THE PROVISION OF BASIC GENERATION SERVICE PURSUANT TO THE ELECTRIC DISCOUNT AND ENERGY AND COMPETITION ACT

**N.J.S.A. 48:3-49 et seq.
Docket No. EX01110754**

SHOULD BGS BE MADE AVAILABLE ON A COMPETITIVE BASIS:

1. Should BGS be made available on a competitive basis?
2. What benefit(s) would customers realize if BGS were made available on a competitive basis?
3. Would benefits accrue uniformly to all classes?
4. Would reliability be maintained? How?
5. If the Board were to make BGS available on a competitive basis, should the Board allow 100% of utility customers to be eligible, or should there be a transition program?

BGS PRICING:

1. What mechanism should be established for market-based pricing of BGS for Year 5 and thereafter?
2. How can a market-based BGS pricing mechanism best support retail choice?
3. What components should the BGS price reflect?
4. Should BGS pricing reflect the wholesale pricing of electricity or should it also include the retail cost of serving that customer?
5. What cost should the retail adder reflect?
6. Should BGS pricing be the same for all customer classes?
7. Should BGS be priced hourly, monthly, seasonally, on a yearly average, or in some other way?
8. Could market-based BGS lead to a rate increase once the rate caps are removed? If so, can the Board limit ratepayers' exposure to market-based BGS rate increases? Should the Board do so and if so, how should this be done?
9. How often should the Board consider the structure of BGS?
10. Should BGS be structured to provide multiple pricing options for customers?

GENERAL

1. What should be the role of the regulated electric distribution company if the opportunity to provide BGS becomes available on a competitive basis?

2. If a third party supplier providing BGS defaults, who should be the “backstop” BGS provider?
3. How should BGS be supplied?
4. Is it necessary that one supplier provide BGS to all customers of a particular utility?
 - a. If not, is it necessary that all similar customers be priced the same?
 - b. If not, should BGS be divided as a “slice of the system,” or on some other basis?
5. Should there be any restriction on EDC affiliates participating in a competitive BGS process?
6. Should billing and metering be a part of a competitive BGS service?
7. What credit worthiness provisions need to be applied to BGS providers?
8. How should customers be permitted to participate (voluntary sign-up or assignment)?
9. Should the same type of competitive BGS program be implemented with regard to customers in each electric public utility’s service area, or are there unique utility situations that should result in different BGS programs?
10. Should BGS suppliers be licensed as electric power suppliers, or should there be a separate BGS license?
 - a. If a separate BGS license is required, what standards should the Board establish?
11. What additional consumer protections should be adopted by the Board, if any, for customers served by competitive BGS providers?